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UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION

In re  
PROFESSIONAL FINANCIAL  
INVESTORS, INC., *et al.*,  
Debtor.

Case No. 20-30604  
(Jointly Administered)

Chapter 11

Michael Goldberg, Trustee of the PFI Trust,  
Plaintiff,  
v.  
Leslie Michelle Wallach,  
Defendant.

Adv. Proc. No. 24-\_\_\_\_\_

**COMPLAINT FOR DAMAGES FOR  
BREACH OF FIDUCIARY DUTY, AND  
TO EQUITABLY SUBORDINATE  
CLAIM PURSUANT TO 11 U.S.C. §  
510(C)(1)**

Michael Goldberg, the duly-appointed Trustee (“*Trustee*” or “*Plaintiff*”) of the PFI Trust (the “*Trust*”) arising from the above-captioned chapter 11 case of Professional Financial Investors, Inc. and Professional Investors Security Fund (“*PISF*”) and their affiliated debtors (collectively, “*PFI*” or the “*Debtor*”), as and for his complaint (“*Complaint*”) against the above-captioned defendant, Leslie Michelle Wallach (“*Wallach*” or “*Defendant*”), by its undersigned counsel, alleges as follows upon information and belief:

**I.**

**INTRODUCTION**

1. By this action, the Trustee – standing in the shoes of PFI and its defrauded investors by virtue of the *Modified Second Amended Joint Plan of Professional Financial*

1 *Investors, Inc. and its Affiliated Debtors Proposed by the Debtors and Official Committee of*  
2 *Unsecured Creditors and Supported by the Ad Hoc LLC Members Committee and the Ad Hoc*  
3 *DOT noteholders Committee Dated (May 20, 2021) (the “Plan”)* – seeks to recover amounts lost  
4 by PFI and its investors in a long-running Ponzi scheme, along with other amounts legally due and  
5 owing as a result of the Defendant’s neglect and malfeasance. Additionally, Plaintiff seeks to hold  
6 Defendant accountable for her malfeasance and neglect in failing for years to check the dangerous  
7 impulses of Ken Casey, her own brother Lewis Wallach (incarcerated in federal prison), and  
8 Manuel Romero (the now-disgraced CFO who reported to her), as more particularly described  
9 below.

10       2.       PFI and PISF were two branches of the Professional Financial Investors enterprise  
11 that employed Defendant in Novato, California. The companies were founded as real estate  
12 investment and management firms specializing in multi-unit residential and commercial properties  
13 in Northern California. Specifically, on or about November 1, 1983, Kenneth Casey founded  
14 PISF and served as its sole shareholder, officer, and director from that date until his death on May  
15 6, 2020. On or about August 15, 1990, Mr. Casey also founded PFI and served as its sole officer,  
16 director and shareholder until 1998, when he relinquished his corporate positions. In 1990, PFI  
17 hired Defendant Lewis Wallach as a bookkeeper who later took over as president of PFI in 1998.  
18 Mr. Wallach continued to serve as president of PFI until June 2020, when the extent of the fraud  
19 outlined below was made clear and he was asked to resign. Defendant left PFI at or about the same  
20 time.

21       3.       For several decades, PFI offered investors what appeared to be safe, steady returns  
22 backed by Marin and Sonoma County real estate. When Casey died suddenly in May 2020,  
23 however, it quickly became apparent that their investment business, Professional Financial  
24 Investors (PFI), was actually a long-running Ponzi scheme that cost investors hundreds of millions  
25 of dollars.

26       4.       There was nothing particularly clever or original about Casey and Wallach’s Ponzi  
27 scheme. It would have been obvious to anyone with access to PFI’s financials (such as  
28 Defendant). They were raising hundreds of millions of dollars from mostly local mom and pop

1 investors, by promising returns that income from the properties couldn't cover. To make the  
2 promised interest payments and fund their lavish lifestyles, Casey and Wallach were depositing  
3 money from new investors into company accounts and then using those funds to pay previous  
4 investors and for their personal benefit.

5 5. The Ponzi scheme was so obvious that within a month of Casey's death, the  
6 scheme was publicly exposed, the SEC had opened an investigation, and PFI had suspended  
7 monthly payments to existing investors. The above-captioned bankruptcy case ensued.

## 8 II.

### 9 JURISDICTION AND VENUE

10 6. This Court has jurisdiction over this adversary proceeding pursuant to 28 U.S.C. §§  
11 157 and 1334(b).

12 7. This adversary proceeding is a core proceeding under 28 U.S.C. § 157(b)(2)(A),  
13 (B), (C), and (O).

14 8. This adversary proceeding is brought pursuant to 11 U.S.C. §§ 502, 510 and Rules  
15 3007(b) and 7001 of the Federal Rules of Bankruptcy Procedure.

16 9. Venue lies in the United States Bankruptcy Court, Northern District of California,  
17 San Francisco Division, pursuant to 28 U.S.C. § 1409(a).

## 18 III.

### 19 GENERAL FACTUAL ALLEGATIONS

20 10. One person who had a clear view of PFI's financial condition far earlier than 2020  
21 was Defendant Leslie Wallach. As an executive with a significant accounting background who  
22 began working at PFI in 2002 and who for many years held the title of Director of Finance before  
23 becoming PFI's Chief Administrative Officer for the remainder of her tenure, Defendant's  
24 responsibilities included but were not limited to working with the very investors who became  
25 victims of the Ponzi scheme. Defendant's paid compensation in her final full year of employment  
26 (2019) exceeded \$200,000. Plaintiff is informed and believes, and on that basis alleges, that in the  
27 PFI administrative hierarchy, company CFO Manuel Romero reported to Defendant.

28

1           11.     PFI and PISF orchestrated the purchase of no less than 70 properties over the years.  
2 These properties were owned by LLCs (with PFI as the managing member), by limited  
3 partnerships (with PFI as the general partner), or by PFI itself (with investors as tenants in  
4 common). For each real estate purchase, PFI set up a separate bank account where investor funds  
5 raised for that particular real estate investment should have been segregated from other  
6 investments and from PFI and PISF's corporate funds.

7           12.     PFI and PISF also each maintained a general corporate account for company  
8 money. And each company maintained at least one clearing account: PFI maintained one clearing  
9 account, titled "PFI Clearing," and PISF maintained two clearing accounts, titled "PISF Clearing"  
10 and "PISF Transfer." The clearing accounts were the primary vehicle used to defraud investors  
11 and keep the PFI Ponzi scheme running. Plaintiff is informed and believes, and thereon alleges,  
12 that Defendant Wallach had full, regular and continuous visibility into such accounts due to her  
13 high position in the company and access to the online banking and internal accounting systems.

14           13.     Clearing accounts are pass-through accounts that are designed to temporarily hold  
15 funds before they are transferred to a more permanent location. They should carry a balance only  
16 when funds need to be transferred somewhere else and return to a zero balance once those funds  
17 are cleared out, which should typically happen on a daily basis. Clearing accounts are often used  
18 by businesses to simplify routine banking transactions. In the case of an investment company like  
19 PFI, clearing accounts were used to receive investor wires or checks, which were then supposed to  
20 be re-routed to the appropriate investment account.

21           14.     PFI sometimes cleared new investor money out of its clearing accounts as  
22 expected. If an investor wired a \$100,000 investment into a PFI clearing account, PFI (and  
23 Defendant) might then transfer the exact same amount into the appropriate investment account.  
24 But on many occasions, when new investor funds were deposited into a clearing account, PFI (and  
25 Defendant) would let them sit in the clearing account indefinitely, commingling those funds with  
26 other new investor funds, and eventually using that money for an illicit purpose. Such funds  
27 might end up funding payments to existing investors (which were sometimes made by issuing a  
28 wire or check directly to investors and sometimes through a payroll processing company that PFI

1 and Defendant oddly used to distribute funds back out), or the funds might be used to cover  
2 shortages in a variety of other accounts, including shortages in other clearing accounts or in PFI's  
3 general accounts. Or they might be used to fund transfers to Casey's and Wallach's personal bank  
4 accounts.

5 15. Although PFI's assets were real estate and thus notoriously illiquid for short term  
6 purposes, PFI maintained a liberal withdrawal policy that allowed investors to seek a return of  
7 some or all of their invested funds on little notice and for little reason. Defendant was fully aware  
8 of this policy and was regularly involved in returning investor funds upon request. Plaintiff is  
9 informed and believes, and based thereon alleges, that Defendant knew or should have known that  
10 the only way a business with PFI's financial model could create the illusion of flexible liquidity  
11 for investors was by allowing improper commingling, and ignoring ordinary protections that  
12 would have ensured that new investor funds were deposited as the investor intended and that  
13 prevented those same funds from being paid out to old investors.

14 16. As PFI's Director of Finance and later as PFI's Chief Administrative Officer and  
15 Manuel Romero's superior, Defendant was on notice that PFI's handling of its bank accounts was  
16 far less than perfect. Indeed, she received and sent dozens of emails regarding the overdraft  
17 situations PFI often found itself in because it was operated as a Ponzi scheme and not as a  
18 legitimate business. She also knew about the (highly improper) movement of money between  
19 properties and accounts that happened with regularity. As a result of her knowledge, the emails,  
20 and her daily interaction with Ken Casey, her brother Lewis Wallach, and Manuel Romero,  
21 Plaintiff is informed and believes, and based thereon alleges, that Defendant knew or should have  
22 known that PFI was not a legitimate business and was, instead, a vicious Ponzi scheme.

23 17. It was common practice at PFI for Ken Casey and her brother Lewis to divert PFI  
24 assets to their own purposes. Just two examples include her brother Lewis' multi-million  
25 investment in Texas real estate using money taken from the company and Ken Casey's regular use  
26 of PFI staff and personnel to improve real estate he owned personally. Plaintiff is informed and  
27 believes, and based thereon alleges, that Defendant was aware of such activities but never sought  
28 to further investigate or stop them.

19. Another highly unusual practice at PFI was its acceptance and retention of large amounts of cash representing what were supposed to be investor funds. Defendant knew that PFI maintained a safe for the purpose of accepting and storing cash. Indeed, she knew about the safe and on occasion helped in the counting of cash placed therein.

11           20.     As Director of Finance and later as Chief Administrative Officer, Manuel Romero  
12 reported to Defendant. Plaintiff is informed and believes, and based thereon alleges, that  
13 Defendant was fully aware of PFI's regular overdrafts and improper moving of monies between  
14 accounts as manipulated by Romero and her brother. However, Defendant never made any effort  
15 to stop or correct these practices.

21. Defendant has filed two proofs of claim in the above-captioned bankruptcy case, claim numbers INV-50 and INV-54, which are clearly duplicates as each such claim asserts a total net claim of \$583,675.42 and a total restitution claim of \$612,859.19 (the “*Claims*”).

#### IV.

### **FIRST CLAIM FOR RELIEF – BREACH OF FIDUCIARY DUTY**

21           22. Plaintiff realleges and incorporates the allegations set forth in paragraphs 1 through  
22 20 above, as if fully set forth herein.

23           23.     As a long-time high level executive officer of PFI, Defendant owed a fiduciary  
24 duty of care to PFI.

25           24.     Defendant was grossly negligent and breached her fiduciary duty of care by failing  
26 to act upon her knowledge of the above-described facts or make any effort to stop the Ponzi  
27 scheme at any time.

25. Had Defendant acted as a responsible and prudent corporate executive, she would have taken steps to correct the faulty practices described above. She did not – ever.

26. As a direct and proximate result of Defendant’s actions and inactions, PFI ended up with properties it could not fund and investors it could not repay. As a direct consequence of the foregoing predicament, PFI was damaged in an amount no less than \$100 million.

V.

**SECOND CLAIM FOR RELIEF – FOR EQUITABLE SUBORDINATION OF PROOFS  
OF CLAIM**

27. Plaintiff realleges and incorporates the allegations set forth in paragraphs 1 through 26 above, as if fully set forth herein.

28. The conduct of the Defendant, as alleged above, constitutes inequitable conduct.

29. By reason of the Defendant’s conduct, the Debtor’s general unsecured creditors were harmed.

30. Allowing the Defendant to receive payment on the Claims prior to the Debtor’s general unsecured creditors would be unfair and inequitable.

31. Equitable subordination of the Claims is consistent with the Bankruptcy Code.

32. This Court has the requisite equitable power pursuant to Section 510(c)(1) of the Bankruptcy Code. Because of the facts and circumstances described in the preceding paragraphs of this Complaint, the Claims should be equitably subordinated to all of the claims of the Debtors’ general unsecured creditors.

VI.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff respectfully requests relief as follows:

1. For a judgment against Defendant in an amount to be proven at trial, but not less than \$100,000.00.

2. For a judgment equitably subordinating the Claims so that nothing is paid to Defendant from the bankruptcy estate until all other allowed general unsecured claims have been paid in full.

3. For costs of suit.

4. For such other and further relief as is just and proper.

Dated: September 9, 2024

PACHULSKI STANG ZIEHL & JONES LLP

By /s/ John D. Fiero

John D. Fiero

*Attorneys for Michael Goldberg,  
Trustee of the PFI Trust*